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SIPDIS

DEPARTMENT FOR NEA
TREASURY FOR GRANT

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TAGS: [EFIN](#) [PREL](#) [PGOV](#) [IR](#) [LG](#)
SUBJECT: LATVIAN BANK ASSISTED IRANIAN PROCUREMENT; LATVIA
WILL INVESTIGATE

Classified By: Ambassador Judith Garber for reasons 1.4 (b) & (d)

11. (S) Summary: A Treasury Department delegation met with a variety of Latvian Government officials to discuss Iran and its abuse of the international financial system and shared information concerning an Iranian transaction that passed through a Latvian bank in 2008. In response, Latvian officials speculated that Iran may have been testing the Latvian anti-money laundering system to determine if they can use it to circumvent sanctions. Latvian officials pledged to investigate the transaction and determine the appropriate response. Latvian banks have few financial connections to Iranian entities and there is no reason to believe that Iran is frequently abusing the Latvian financial system. The U.S. Treasury delegation consisted of Brian Grant and Christopher Burdick. End Summary.

LATVIAN BANK ASSISTED IRANIAN PROCUREMENT

12. (S) The Director of Global Affairs for the Treasury Department's Office of Terrorist Financing and Financial Crimes, Brian Grant, met with Latvian officials on November 3 and 4 to discuss Iran and share relevant intelligence on how JSC Latvijas Krajbanka facilitated payments related to Iranian defense procurement efforts in 2008. Mr. Grant passed this statement to the Latvian MFA, Financial Capital Markets Commission, and the Financial Intelligence Unit.

13. (S) In response to the information shared, Latvian officials at the MFA said that they would examine the problem and then determine what action to take in response to it. Officials at the FCMC said that they are scheduled to conduct an on-site inspection of JSC Latvijas Krajbanka and they would look into this matter and determine what do about it. FCMC said that the minimum precaution Latvian banks should take when dealing with Iranian entities is enhanced due diligence. Both organizations requested more detailed information regarding the suspect transaction, if possible. The FCMC suggested that the USG approach the Lithuanian government with the same information because Latvia's Krajbanka is the subsidiary of a Lithuanian bank, Snoras.

IRAN TESTED LATVIAN BANKING CONTROLS

14. (SBU) Mr. Grant explained that as major financial institutions have terminated business relationships with Iran, Iran has increasingly turned to emerging market financial institutions for access to the global financial system. Although there are minimal historical, cultural, or geographic reasons that Iran would attempt to utilize Latvia to circumvent sanctions, Latvia has a sophisticated banking system that is well-integrated into the global economy- the type of system Iran is targeting. In addition, the Latvian banking system has a high percentage of non-resident accounts, around 30%, which creates a systemic money-laundering risk.

¶5. (SBU) It appears that Iran has indeed taken preliminary steps aimed at abusing the Latvian financial system. After sharing the information, FCMC officials then shared supplementary information on two additional transactions, which they believe Iran used to test the Latvian financial controls system. First, in 2008 Bank Melli made several transactions, which were detected, stopped and frozen. Parex Bank, one of the largest Latvian banks, reported that Bank Melli, an Iranian bank that the USG, EU and UN sanctioned as a known financier of Iran's proliferation efforts, attempted to complete two transactions with Parex Bank. One transaction was routed through a German bank and one was routed through a Bank Melli subsidiary in Moscow, most likely Bank Melli Iran ZAO. Both transactions were small. The FCMC froze both transactions and the money remains frozen today.

¶6. (SBU) Latvian banks' relationships with Iran remain small. The FCMC also said that they routinely circulate the Financial Action Task Force's guidance regarding Iran to Latvian banks and tell them to review their Iranian banking relationships, if any. In response, the banks said they were conducting little business with Iranian entities and most Latvian banks indicated that they would not do business with Iranian entities because of the FATF guidance. A few banks said they would do business with Iranian interests, but only after enhanced due diligence.

¶7. (SBU) The FCMC also noted that an Iranian-American living in London that owns the Royal Bank of Baku in Azerbaijan applied to purchase Parex Bank, a large Latvian bank. The FCMC denied this application. The FCMC provided Treasury

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with a letter from Ali Ram, owner of the Royal Bank of Azerbaijan that describes his interest in acquiring Parex bank. In a follow-up communication, the FCMC provided information about three suspect transactions involving Iran's Aseman Airlines where Iran attempted to pass \$900,000 Euros through Latvia, which it described as payment for re-upholstering aircraft.

MEETING WITH LATVIAN FIU

¶8. 7. (SBU) The head of Latvia's financial intelligence unit, Viesturs Burkans, said that his office has the authority to freeze transactions that violate Latvia's money laundering laws or involve entities on the terrorist watch list. However, dealing with an Iranian entity that is not on the terrorist watch list is not a predicate crime to money laundering under Latvian law and thus does not trigger freezing. Such transactions do trigger suspicious transaction reports to Mr. Burkans' office because they are high-risk transactions. Mr. Burkans did not know how many reports of transactions with Iranian entities his office has received.

COMMENT

¶9. (S) Comment: There is no reason to believe that Iran is frequently using the Latvian financial system. It is not even clear if JSC Latvijas Krajbanka knowingly assisted Iranian procurement. However, despite the strong steps Latvia has taken to address money-laundering in the last few years it remains a problem in Latvia and various nefarious persons abuse its financial system. Fortunately, Latvian regulators appear to have stopped two potential Iranian attempts to test their financial regulatory system. Hopefully, this deters future Iranian abuses of the system. End comment.
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